

Stocks continued to rally in the 4th quarter, building upon gains that began in the 3rd quarter when the Federal Reserve signaled it would take further steps to stimulate the economy. Investor sentiment towards equities improved throughout the quarter, helped by Republican wins in the mid-term election and the agreement to extend the Bush tax cuts for two more years.

Better than expected corporate earnings also helped push stock prices higher. Earnings from S&P 500 companies grew 32% in the 3rd quarter vs. the prior year. While the unemployment rate remained stubbornly high, other economic data suggested the economy is improving. Retailers enjoyed improved holiday sales, while GDP growth for 2010 will likely come in around 3%.

All sectors of the stock market produced gains in the 4th quarter, led by the energy and materials sectors. Industrial and consumer discretionary stocks again outperformed the market and posted the best results for the entire year. Bond prices suffered as interest rates moved higher during the quarter. The Barclays Aggregate Bond Index posted its largest quarterly decline since 2004.

Even with the 86% advance from March 2009 lows, we believe the stock market will produce decent returns in 2011. Valuations have moved higher of late, but still remain lower than the historical average over the last 20 years. Corporate earnings should continue to grow and balance sheets are flush with cash. Investors can expect dividend hikes, share repurchases, and acquisitions as companies deploy excess cash.

Return of Various Market Indices								S&P 500 Economic Sector Returns		
Data as of: December-2010 [periods > 1 year annualized]										
Index	Last Month	Last Quarter	Year-to-Date	1 Year	3 Year	5 year	10 Year	Wgt.	Sector	YTD Return
3-Mo US T-Bills (Cash)	0.01%	0.04%	0.12%	0.12%	0.60%	2.23%	2.18%	10.2%	Consumer Discr.	27.76%
Barclays 1-3 Year Gov't Bonds	-0.17%	-0.13%	2.40%	2.40%	3.47%	4.32%	4.07%	10.6%	Industrial	26.67%
Barclays Gov't/Corp Bonds	-1.40%	-2.17%	6.59%	6.59%	5.60%	5.56%	5.83%	3.5%	Materials	22.23%
Dow Jones Industrial Average	5.33%	8.04%	14.06%	14.06%	-1.61%	4.31%	3.15%	11.1%	Energy	20.62%
DJ Wilshire 5000	6.78%	11.74%	17.70%	17.70%	-1.56%	3.17%	2.64%	3.0%	Telecomm	19.22%
S&P 500 Composite	6.68%	10.76%	15.06%	15.06%	-2.86%	2.29%	1.41%	11.3%	Consumer Staple	14.15%
S&P/Citigroup Growth	5.22%	11.02%	15.05%	15.05%	-0.50%	3.60%	0.99%	15.8%	Financial	12.36%
S&P/Citigroup Value	8.22%	10.51%	15.10%	15.10%	-5.36%	0.87%	1.65%	18.9%	Technology	10.26%
S&P 500 Utilities Sector	3.09%	1.09%	5.46%	5.46%	-5.72%	3.90%	0.79%	3.6%	Utility	5.63%
Russell 2000 (Smallcap Stocks)	7.94%	16.25%	26.85%	26.85%	2.22%	4.47%	6.33%	11.9%	Health Care	2.75%
MSCI EAFE (Int'l Stocks)	8.11%	6.65%	8.21%	8.21%	-6.55%	2.94%	3.94%	100%	S&P 500	15.06%

Source: Ibbotson Associates & Bloomberg LP